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ABSTRACT

Historians of education have never considered the problem of institutional economics to be very important. Almost nothing has been written in the field. The absence of inquiries into the financial basis of American higher education is a reflection of three major problems in the scholarship of education: (1) the lack of monographic literature in the economics of education; (2) the lack of a coherent theory of institutions and the relations between their organizational and substantive features; and (3) the lack of a coherent theory of society in which institutional patterns could be systematically related to familial, social-structural, economic, and other patterns of activity. This persistent tendency of the social sciences to proceed along narrowly disciplinary lines has resulted in a series of systems that are internally consistent but that bear small resemblance to the real world. The much neglected field of educational economics has far more to offer than even its practitioners imagine. It seems very likely that the key to understanding the development of the American social structure lies in the complex relationship between the endowed institutions, their clientele, and the economy. (Author/MSE)

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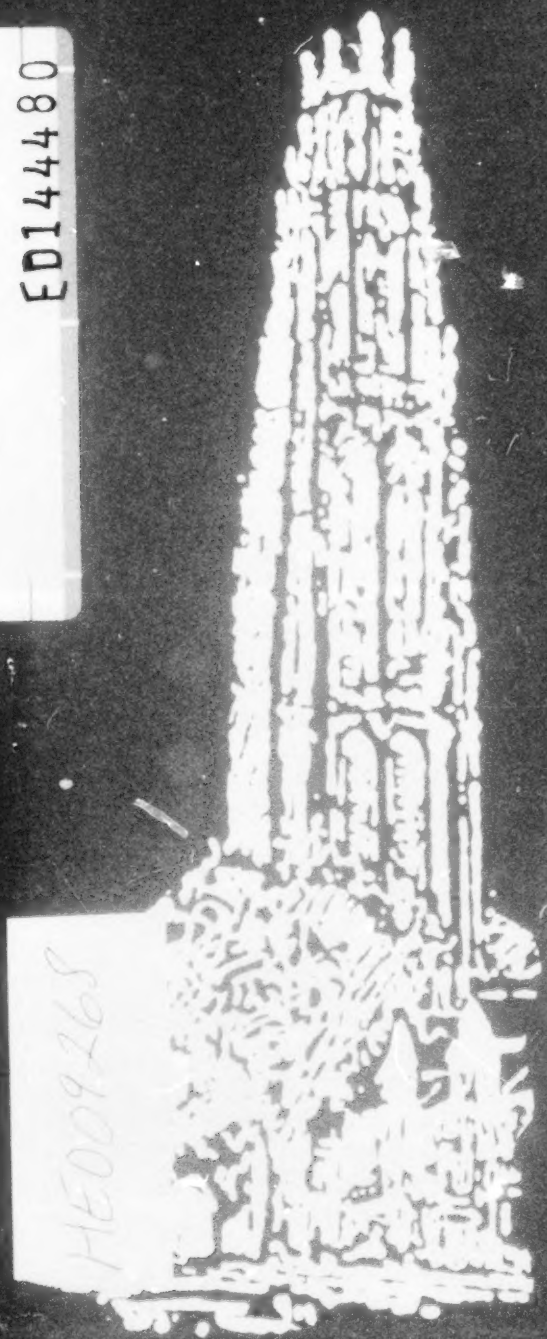

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VERITAS ET PECUNIAS:
THE HISTORICAL ECONOMY OF EDUCATION

by

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YALE HIGHER EDUCATION PROGRAM
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VERITAS ET PECUNIAS:
THE HISTORICAL ECONOMY OF EDUCATION *

Historians of education have never considered the problem of institutional economics to be very important. Almost nothing has been written in the field. The only substantial piece of work to be written before 1962 was Jesse B. Sears' Philanthropy in the History of American Higher Education (Washington, 1922). Even the major comprehensive histories of higher education in America such as Rudolph's The American College and University and Hofstadter and Metzger's Academic Freedom in the Age of the College treat the problem casually, disagreeing even on such basic issues as whether the major source of financial support for colonial colleges was public or private.[1]

The absence of serious enquiries into the financial basis of American higher education is a reflection of three major problems in the scholarship of education: 1) the lack of a monographic literature in the economics

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[1] Frederick Rudolph in The American College and University (New York, 1962), p. 178, states in this regard:

> The American college...was an expression of Christian charity, both in the assistance that it have to needy young men and in the assistance that it received from affluent old men. While the colonial economy could not support philanthropy of the dimension that founded the colleges at Oxford and Cambridge, individual benevolence was nonetheless in the English tradition, and the colonial colleges therefore naturally looked to it for sustenance.

Richard Hofstadter and Walter P. Metzger, on the other hand, assert in Academic Freedom in the Age of the College (New York, 1955), that

> The earliest colleges had been founded at a time when private resources were much too feeble to maintain them, and support by the state was a necessity...In the last thirty years before the outbreak of the Revolution both state aid and state interference diminished as the burden of support shifted from government to private individuals...

* This is an essay review of The Economics of Harvard, by Seymour E. Harris and of "Out of Smalle Beginnings...": An Economic History of Harvard College in the Puritan Period (1636-1712), by Margery Somers Foster, from the History of Education Quarterly, Winter, 1974, pp. 501-511.

of education; 2) the lack of a coherent theory of institutions and the relations between their organizational and substantive features; 3) the lack of a coherent theory of society in which institutional and educational patterns could be systematically related to familial, social-structural, economic, and other patterns of activity. Three three problems are connected. Because there has been no concerted effort to even chronicle the history of institutions in society, there has been little basis on which to create a theory of institutions. Because there has been little coherent theorizing about institutions, there has been little impulse to create the monographic work essential for comprehensive studies and for the generation of theory.

This characterization of the historiography of education and of much of the work in the social sciences may seem unduly harsh. But it is a mere statement of facts which can be verified by anyone who wishes to survery the small, obscure, and theoretically impoverished bodies of literature in economic history, the history of institutions, and on the place of institutions in American society.

There seems to be a persistent tendency in history, economics, and in the other social sciences to blinder themselves and to proceed along narrowly disciplinary lines. The result has been a series of systems which are internally consistent but which bear small resemblance to the real world.[1] A typical example of this tendency is provided by David McClellan

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[1] An excellent description of the present crisis in the economics profession is Wade Greene, "Economists in Recession," The New York Times Magazine, 12 May 1974.

in his introduction to The Achieving Society:

> Basically, the economist's model of development is a rational one in which the enlightened self-interest of man converts pressures acting on the economic system from inside or outside into activities resulting in greater productivity or wealth. For example, a new method of production is invented which leads to improved productivity--say the invention of wire cable which enabled miners to get coal out of the ground without carrying it on their backs. It was "obviously" to the mine owner's advantage to develop such an invention in order to get more coal out faster and thus to have a competitive advantage over other mine owners. Likewise it was to the advantage of other owners to adopt the new technique as fast as possible in order to regain their competitive position. Man's self-interest and an event which changed the economic equilibrium so that he was at an advantage or disadvantage might thus explain the resulting increases in economic activity and productivity. Even today this model continued to dominate the thinking of most economists because of its great simplicity and convincing a priori reasonableness.[1]
>
> ...Interestingly enough, the economic theorists themselves seem to have always felt that sources of change in the economic system lay outside the system itself. Thus it was not really clear to them why technical inventions of practical importance should appear more frequently at one period in history than in another, or why once having appeared in one country, they should spread more rapidly to country A than to country B. Or consider the position of neoclassical economists, like Marshall (1930). They placed great emphasis on the importance of saving so that profits could be reinvested in the expansion of business, but Marshall, at any rate, recognized that thrift is not something that people automatically practice when it is in their interest to do so. Propensities to save and invest and other attitudes necessary for economic growth appear in the end to be not economic but psychological variables.[2]

That is, while the economists could explain the behavior of an economic system given the existence of certain behavioral variables such as "thrift" or the "profit-motive," they had no idea what underlay these variables

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[1] David McClelland, The Achieving Society (New York, 1961), p. 8.

[2] Ibid., 11.

or what structural factors could bring them into play.[1]

As long as the study of economic planning and policy-making was carried on by politicians and businessmen, the divergence of the discipline of economics from economic reality made little difference. But when academic economists assumed important policy positions in government and began to set the direction of a national economy through the use of their blindered and incomplete models, all sorts of unforseen consequences arose. For an economics based on economic criteria alone was of necessity a very imperfect means of forseeing and controlling events in the real world. To paraphrase a speaker at a recent convention of economists in regard to his discipline's grasp of the current economic crisis--those who thought that they were in charge of the course of the ship of state found that they had, instead, been busy optimizing the arrangement of its deck chairs.[2]

What is true for economics is true for the other social sciences as well. Just as economic models which have excluded political, sociological, and psychological factors as "marginal" have led to dangerous and unforseen consequences when used as guidelines for national policy, so sociological and political models formulated in a blindered way could--and do--produce unanticipated results when implemented as policy. A

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[1] One of the few economic historians to recognize the complexity of this question is Thomas Cochran. I strongly recommend his essay, "The Entrepreneur in American Capital Formation," National Bureau of Economic Research, Capital Formation and Economic Growth (New York, 1955).

[2] The actual quotation is: "...in more than one outburst of eloquent humility, a scheduled speaker observed that he and his colleagues had been busy 'optimizing the arrangement of deck chairs on the Titanic.'" Wade Greene, "Economists in Recession," 19.

notable example of the latter is being seen in the effect that the declining birthrate in America is having on educational institutions and on the academic profession. Family limitation was championed by physicians and sociologists--and ultimately by the government itself--without the slightest understanding of its effects on the society and economy.[1]

There can be no doubt that the social sciences must move toward more comprehensive orientations, connecting and collecting data in a genuinely interdisciplinary way. The task cannot be accomplished by assuming that the disciplines as they presently stand represent largely completed bodies of knowledge and then plugging in theory from one discipline into another. It must at the outset be accomplished through work on basic data, through the creation of a genuinely interdisciplinary monographic literature.

Two books, Margery Somers Foster's "Out of Smalle Beginnings..." An Economic History of Harvard College in the Puritan Period (1636-1712) and Seymour E. Harris' The Economics of Harvard represent the kinds of work which the scholarship of education, of institutions, and of the social sciences in general particularly need. They are not without faults: they are not theoretically oriented; they are rather boring; they do not stray far from their subjects; they do not feature brilliant ideational leaps. But they are not failed efforts--even though reviewers ignored them. For at their cores is the all-important recognition that the reality that we as scholars seek to understand is a concrete reality, that it consists of

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[1] For an interesting account of this, see Stephen P. Dresch, "Demography, Technology, and Higher Education: A Model of Educational Adaptation" (New Haven, 1974)--this is a working paper of the Institution for Social and Policy Studies.

the specific activities of men and institutions in pursuit of their ends. It is only through such basic examinations of the concrete data that it becomes possible to attain new insights and depart from sterile scholasticism. Brilliant syntheses are ultimately necessary. But scholarship is a cooperative endeavor and it will not be possible to synthesize until there is something to synthesize.

Because of the newness of the enterprise on which Foster and Harris have embarked, I would like to abstain from specific criticism of their books. Instead I would like to discuss the context into which their work should be placed. For the very existence of this work and the directions for further study that it suggests is far more urgently in need of discussion than the correctnees of their particular analyses of Harvard's financial history.

It is curious that the financial dimensions of America's institutions of culture and education have been so generally ignored--until Foster and Harris came along. There has been ample justification for investigating this problem, not only because of the enormous emphasis placed on the pursuit and attainment of wealth in this country since its beginnings, but also, since the end of the eighteenth century, these institutions have been privately supported and controlled by persons prominent in economic life.[1] It is necessary to ask why persons of means--generally active businessmen--

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[1] The ascendance of merchants onto the governing boards of endowed colleges occurred at different times. It happened very early at Harvard, with the appointment of James Bowdoin as a Fellow in 1780. By 1820, the board was entirely mercantile. While no layman sat on the Yale Corporation until after the Civil War, the influence of the mercantile community was pronounced. Merchant James Hillhouse was Treasurer of Yale until 1832. While his successor Wyllys Warner was a clergyman, he was heavily dependent on mercantile advise and consent to college policies--as he toured the cities of the eastern United States raising funds for Yale. Treasurer's Correspondence in the Yale University Archives.

have chosen to devote their financial resources to institutions which were apparently non-profit in their intent. It is not enough to write off their philanthropic acts as mere egoism, as purely charitable, or as sinister attempts to control their culture. While all these impulses may be involved, the responsibility of scholars to examine them remains. Further, it is necessary to ask how the fact of private governance and support affected the forms and functions of the institutions in question. While it has often been asserted that cultural and educational institutions served as citadels or refuges for retreating and declining elites, elites which had lost their economic vitality, this seems unlikely.[1] After all, how could non-commercial or anti-commercial declining elites contribute to, manage, and control endowment funds with the success that characterized the portfolios of Harvard, Yale, and the other private endowed institutions? And how, if they were in retreat and decline, could they combine astute fiscal management with an overall expansion of services and clientele which moved the institutions in question towards inclusion rather than exclusion? Clearly there were subtantial connections between the financial activities of colleges and universities,

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[1] A typical expression of this view of American cultural and educational institutions is to be found in Robert F. Lucid's introduction to The Journal of Richard Henry Dana (Cambridge, 1968), xviii, in which he states that Bostonians, having lost national political power with the demise of Federalism, redirected their energies towards "areas of cultural significance." Frederick Cople Jaher in his various writings expresses a similar view of the commitment to culture by the upper classes. He sees it as a turning away from active entrepreneurship, a conservative response by a group which was no longer willing to participate actively in the mainstream of American economic and political life. For a superb refutation of this view, vide G. Kolko, "Brahmins and Businessmen" in Barrington Moore and Kurt Wolfe, The Critical Spirit: Essays in Honor of Herbert Marcuse (Boston, 1967), pp. 343-63.

their educational tasks, and the personnel of the social and economic structure. Finally, it is necessary to examine the economics of educational institutions simply because their financial operations are a sine qua non of their existence: a corporate organization, whether profitable or charitable, can no more exist in our culture without a financial dimension than the human organism can exist without a respiratory system. A testament to this is the fact that college financial records are generally kept with far more care than any other institutional archives. The financial records of Harvard, for example, represent the longest continuously kept economic record in the United States, for Harvard is the oldest corporation in the United States.

Enquiries of this kind do not necessarily lead to vulgar materialism the simple linkage of financial factors to curriculum and pedagogy. Educational institutions are highly complex and are particularly amenable to interdisciplinary exploration. They are peculiarly finite situations: one can account for their students, both their antecedents and their subsequent careers; one can account for their faculty, for their officers, for their financial supporters, for their educational methods, for their physical plants. They are, moreover, marvellously accessible: they kept records of trustees meetings, financial dealings, and, because their personnel were literate, they wrote down their thoughts about what they were doing and what they intended to do. Whether one chooses to analyse them quantitatively or qualitatively, the material exists. And, most importantly, it exists in a fashion whereby it is especially easy to move from ideology and attitudes to harder behavioral and economic data--giving historians the opportunity to move from borrowing from social theory

towards making contributions to it.

Some of the reason for the complexity of educational institutions are suggested by the Yale economist Stephen P. Dresch in a paper entitled "The Endowed Institution: Positive Theory and Normative Implications" (New Haven, 1973).[1]

> ...the strength of the non-profit institution, the basis of its independence and power, is the financial security and support provided by the endowment trust. Originating in a private philanthropy encouraged by government, the existence of the endowment makes possible a freedom from both public and private suport at any point in time.
>
> The endowment permits the translation of private philanthropy of the past into current or future activity, activity which may, or may not, encourage further public or private support.
>
> From this perspective, the endowed institution is differentiated from other voluntary organizations, e.g. the "community chest," by the perpetuation of the institution itself through time. Were these institutions required to dispose of all contributions on a current basis, the very nature of the institutions and of their activities would be considerably altered.

As Dresch indicates, it is the nature of the endowment trust that gives the major private educational institutions their special character. It is the only device in American law by which property can be tied up and devoted to designated purposes in perpetuity. While the trustees of an endowed institution might wish to turn endowments to other purposes--whether removing restrictions from a restricted fund or using capital to meet operating expenses--they are legally obliged to carry out the directions of the giver, volens-nolens. Thus the independence of which Dresch speaks is more than nominal: restricted endowments can only be expended for their designated purposes; unrestricted endowments must keep

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[1] Stephen P. Dresch, "The Endowed Institution: Positive Theory and Normative Implications" (New Haven, 1973). This is an unpublished manuscript.

their capital intact, however their income is expended, regardless of pressures from the public, students, or administrators. This creates a complex situation. On the one hand, endowments can lead to extreme educational conservatism, a powerful dead-hand controlling the education of the present and future.[1] On the other hand, because it is immune from contemporary pressures whether from inside or outside the institution, it can be a significant source of independence and innovation, a ready source of funds for implementing programs, regardless of the willingness of the public to support them.[2]

The importance of the endowment trust as the legal and financial core of the private university in the United States goes beyond its potential as a source of educational conservatism and innovation. It is closely tied to broader issues in the economy and the social structure. Some of these are suggested by Oliver Wendell Holmes in his commentary on the

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[1] Merle Curti and Roderick Nash in Philanthropy in the Shaping of American Higher Education (New Brunswick, 1965) hold to the view of endowments as conservative influences. This book contains a very complete bibliography of the literature in the history of American educational institutions, although its emphasis is on the philanthropic impulse as an intellectual rather than a social or economic phenomenon.

[2] Seymour E. Harris, who has actually studied endowments in the concrete, argues for endowments as liberalizing.

> Above all, endowment income provides opportunities to meet new contingencies and to exploit new opportunities. The function of the endowment is well performed when there is maximum freedom of use. Without these free funds, President Lowell insisted, many opportunities to find brilliant men are lost.

The Economics of Harvard (New York, 1970), p. 336.

transmission of wealth in Massachusetts in his novel, Elsie Venner:[1]

> It is in the nature of large fortunes to diminish rapidly, when subdivided and distributed. A million is the unit of wealth here and now in America. It splits into four handsome properties; each of these splits into four good inheritances; these, again, into scanty competences for four maidens--with whom it is best that the family die out, unless it can begin again as great-grandfather did. Now a million is a kind of golden cheese, which represents in a compendious form the summer's growth of a fat meadow of craft or commerce, and as this kind of meadow rarely bears more than one crop, it is pretty certain that the sons and grandsons will not get another golden cheese out of it, whether they milk the same cows or turn in new ones. In other words, the millionocracy, considered in a large way, is not at all an affair of persons and families, but a perpetual fact of money with a variable human element...Of course the trivial and fugitive fact of personal wealth does not create a permanent class, unless some special means are taken to arrest the process of disintegration in the third generation...

It appears that the endowment trust is one of the "special means" by which the erosion of accumulated wealth is prevented. For what is an endowment trust but a type of wealth transmission, differing from the testamentary trust only in the nature of its objects? Surely the human element is more variable in the endowment trust than in the testamentary trust. The beneficiaries of the latter are generally descendants of the trust-makers, persons in whom the trust property must vest after a certain specified time under the Rule Against Perpetuities.[2] But the founder of an endowment trust leaves his funds, at least in theory, to a far more general class of persons--persons who will not necessarily be his descendants.

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[1] Oliver Wendell Holmes, Elsie Venner, A Romance of Destiny (New York, 1961), p. 16.

[2] For the legal definition and operation of trusts, both testamentary and charitable, Austin Wakeman Scott, The Law of Trusts(Boston, 1939). See also, Guy Newhall, Future Interests and the Rule Against Perpetuities in

(continued on next page)

In spite of this uncertainty, the endowment trust has remarkable advantages. Not only can the donor be sure that a portion of his wealth will remain safe from improvidence and fragmentation, he can also guarantee the transmission of his beliefs through generations into the future. He can do this by specifying that his funds should be ed for some particular purpose--ranging from annual lectures on politics, to a fund for the purchase of books on baptism by total immersion, to a professorial chair in railway administration.[1]

The central importance of studying the economics of colleges and universities becomes apparent in the intersection of the legal theory of trusts, the personnel of institutions, and the question of financial management. The theory of trusts contains considerable uncertainty as to whom the beneficiaries of endowments will be. At the same time, a perusal of the catalogues of graduates of private universities makes it clear that certain families participate in them as students, faculty, and officers for generation after generation. Further, listings of

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[2] (continued from previous page)

Massachusetts (Boston, 1942). The Rule Against Perpetuities was formulated in order to prevent the ultimate tying up of all property in unalienable form. It defines a perpetuity as:

> ...an estate unalienable, though all mankind join in the conveyance...a thing odious in the law, and destructive to the commonwealth; it would stop commerce and prevent the circulation of property.

Jarious Ware Perry, A Treatise on the Law of Trusts and Trustees (Boston, 1872). The Rule was adopted by the British courts in 1682--but was not enunciated in America until 1833, in Nightingale vs. Burrell, 15 Pickerings Reports 104 (1833).

[1] For the values transmission functions of trusts, see Donald Holbrook, The Boston Trustee (Boston, 1939). For a more theoretical approach, see Marvin Sussman et al., The Family and Inheritance (New York, 1970).

financial supporters of particular institutions seem to indicate that the bulk of donations come from families who have participated in the life of the institution for generations. Although it is obvious that those benefitting from endowments include far more persons than descendants of major financial supporters, it is equally clear that a surprising number of descendants do benefit either directly, as students, or indirectly as employees---as faculty, administrators, or trustees. The admission of "outsiders" as beneficiaries in no way contradicts the process of wealth transmission or the institution's elite functions. For endowments can serve as a primary means of transmitting elite values to socially and economically mobile persons and, as a result, act as a means of extending elite influence through the whole society.

The model of the endowed institution as being tightly bound to the development of the social structure through its function in wealth and values transmission becomes more compelling when one moves from theory to concrete historical situation. In Massachusetts, for example, it appears that the founding and growth of endowments as central features of Harvard and other philanthropic institutions (Massachusetts General Hospital, the Atheneum, and so on) accompanies and is an essential part of the transformation of the region from a pre-industrial to an industrial capitalist society.[1] Essential to the creation of an industrial society is an accumulation of capital free for investment in non-family

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[1] The association of contributions to endowment with the transformation to industrial capitalism is forcefully shown in Jesse B. Sears Philanthropy in the History of American Higher Education (Washington, 1922). Sears does a comparative study of gifts to Harvard, Yale, Columbia and Princeton which makes clear that gift-giving as a broad phenomenon is closely associated with broader economic developments. In this regard, see also, Samuel A. Eliot, "Public and Private Charities in Boston," North American Review, July, 1845; and Samuel A. Eliot, "Charity in Boston," Ibid., July, 1860.

enterprises. Developing such an accumulation is not merely an economic achievement. As Bailyn and others have shown, New England merchants were doing quite well before the Revolution. They had capital. But because of the peculiar nature of the pre-industrial social and economic structure, this capital was not free.[1] As Peter Laslett remarked in speaking of the pre-industrial situation, "economic organization was domestic organization."[2] That is, capital was entirely personal and entirely involved in undifferentiated household-enterprise. As a result, even though there was capital, it could not be allocated into the economy in the form of free investment.

Before the founding of the Massachusetts Bank in 1783, the endowment of Harvard College was the only source of nonfamilial, free capital in Massachusetts. In order for the trustees of its endowment to carry out their responsibilities, it was necessary for the endowment to be invested so that it would yield usable income. Because there were no corporations for profit in New England before the Revolution and, hence, no securities market, the locus of investment was limited to rental property, mortgages, and personal loans. Harvard, in other words, functioned as a credit institution for Boston merchants--a practice which had precedent in the English philanthropic foundations from the sixteenth century on.[3]

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[1] For the relation between families and enterprise, vide Bernard Barber, Guardians of Virtue: Salem Families in 1800 (New York, 1972). See also Kenneth Wiggins Porter, The Jacksons and the Lees (Cambridge, 1937).

[2] Peter Laslett, The World We Have Lost (New York, 1965).

[3] For the function of endowments as credit institutions in England, see Wilbur K. Jordan, Philanthropy in England, 1480-1660 (London, 1959). Both M.S. Foster and S.E. Harris discuss personal loans and mortgages as college investments in their books--although they do not highlight the fact that Harvard was the only institutional source of credit of this type in colonial Massachusetts.

The endowed institution as a credit institution takes on considerable importance when viewed in the light of Massachuetss inheritance practices. Massachusetts practiced partible inheritance in which the parental estate was divided between the survivors of the testator. Thus, as Holmes indicated, there were compelling forces acting against both the accumulation of wealth in the hands of particular families and the accumulation of wealth in the hands of particular families and the accumulation of wealth per se. An endowment, however, was not subject to partition, since it was not personal property. Its capital remained intact through generations and was economically usable, even though nominally the property of an institution.

As the material in Harris' Economics of Harvard indicates, endowment gifts (as opposed to gifts for current expenses or building) did not become an important part of Harvard's finances until Massachusetts society began its transformation into an industrial capitalist society. It seems very likely that the growth of Harvard's endowment, rather than simply reflecting the general increase in mercantile wealth, acted as a significant source of it. This action may have stemmed not only from direct use of Harvard's funds as investment capital, but also by Harvard's acting as an example for other endowed organizations. It is clear that by the 1840s, one of the main reasons for Boston's importance as a national center of investment capital was its ability to centralize the capital accumulations of endowed institutions, family testamentary trusts, and commercial trusts (insurance company assets). These accumulations, prudently invested, appear to have provided an important part of the capital from

which grew the industrial capacity of New England--and of the nation.[1]

The crucial element in Boston's centralization of capital, however, was not economic. For the centralization of capital could not have come about without structured and regularized means of recruiting and selecting economic leadership. Here the substantive, non-economic aspects of educational institutions became important--for it was within the educational institution that shared values were created and transmitted and basic evaluations of competence and leadership were made.

It is obvious that the much neglected field of educational economics has far more to offer than even its practitioners imagine. For it seems very likely that the key to understanding the development of the American social structure--at least at its upper levels--lies in the complex relationship between the endowed institutions, its clientele, and the economy. It is shameful that Seymour Harris' Economics of Harvard and Margery Somers Foster's "Out of Smalle Beginnings..." have been so largely unappreciated by scholars of education and society.[2] While neither of them deals explicitly with the broader issues which have been discussed in this essay, it is difficult to read their books without an awareness of those issues--and of the unusual research opportunities available in this area to imaginative historians and social scientists.

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[1] Gerald T. White's History of the Massachusetts Hospital Life Insurance Company (Cambridge, 1955) discusses the importance of endowment and family trusts in making up the capital of the Hospital Life Insurance Company--the most important financial institution in New England before 1870.

[2] These books were reviewed in few places. A reflection of the indifferen of the scholarly community to them is the small use to which university libraries' copies have been put. Yale's copy of Harris has been borrowed half-a-dozen times since its acquisition. Princeton's copy has only been borrowed once since its acquisition. It is ironic that the book first cam to my attention, not through a fellow scholar's recommendation, but from Robert Killingsworth, the Financial Analyst of Yale University. The Foster book has been used more extensively--but it is presently being remaindered by the Harvard University Press, presumably in response to small demand by purchasers.

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